

S Wosepka, James J  
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1995 the Legislative  
Auditor

STATE OF MONTANA  
OFFICE OF THE LEGISLATIVE AUDITOR  
FINANCIAL-COMPLIANCE AUDIT FOR THE  
TWO FISCAL YEARS ENDED JUNE 30, 1995  
PERFORMED UNDER CONTRACT BY:  
JAMES J. WOSEPKA  
CERTIFIED PUBLIC ACCOUNTANTS

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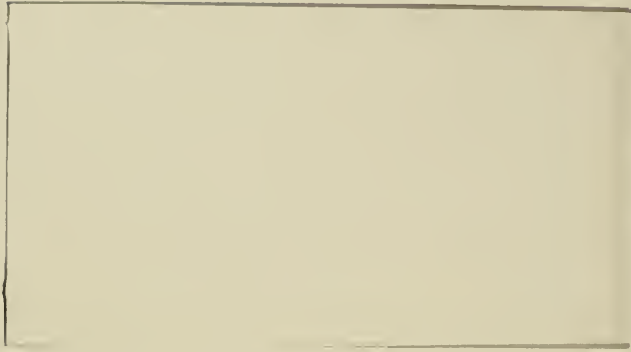
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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL  
PO BOX 201705  
HELENA, MONTANA 59620-1705  
406/444-3122  
FAX 406/444-3036

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON  
Operations and EDP Audit  
JAMES GILLET  
Financial-Compliance Audit  
JIM PELLEGRINI  
Performance Audit



LEGISLATIVE AUDITOR:  
SCOTT A. SEACAT

LEGAL COUNSEL:  
JOHN W. NORTHEY

November 1995

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Legislative Auditor's  
Office for the two fiscal years ended June 30, 1995.

The audit was conducted by James J. Wosepka, CPA, under a contract  
between the firm and our office. The comments and recommendations  
contained in this report represent the views of the firm and not  
necessarily the Legislative Auditor.

Our written response to the report is included in the back of the  
audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat  
Legislative Auditor



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ELECTED AND APPOINTED OFFICIALS  
OFFICE OF LEGISLATIVE AUDITOR

LEGISLATIVE AUDIT COMMITTEE MEMBERS

1994-1995

SENATORS

Greg Jergeson - Vice Chairman  
Sue Bartlett  
Tom Keating  
Reiny Jabs  
Ken Miller  
Linda Nelson

REPRESENTATIVES

Ernest Bergsagel - Chairman  
Robert Pavlovich  
Beverly Barnhart  
A.R. "Toni" Hagener  
Bob Keenan  
Bruce Simon

LEGISLATIVE AUDITOR

Scott Seacat

1993-1994

Greg Jergeson - Chairman  
Tom Keating  
Gerry Devlin  
Eve Franklin

John Cobb - Vice Chairman  
Robert Pavlovich  
Ernest Bergsagel  
Linda Nelson

LEGISLATIVE AUDITOR

Scott Seacat



## INTRODUCTION

We performed a financial-compliance audit of the Office of the Legislative Auditor for the two fiscal years ended June 30, 1995. The objectives of the audit were to: (1) determine if the financial schedules present fairly the Office's results of operations in accordance with the State's accounting policies for the two fiscal years ended June 30, 1995; (2) determine if the Office complied with applicable laws and regulations; and (3) make recommendations for improvement in the management and internal controls of the Office.

We thank the staff of the Office of the Legislative Auditor for their cooperation and assistance during our audit.

## BACKGROUND

The Office of the Legislative Auditor was established in 1967, and is governed by Title 5, Chapter 13, MCA. The Office is responsible for auditing the financial affairs and transactions of every state agency and the efficiency and effectiveness of selected state programs and operations. The Office is also responsible for assisting the Legislature, its committees, and members by gathering and analyzing information relating to the fiscal affairs of state government.

The Office works under the general supervision of the bipartisan Legislative Audit Committee, the members of which are evenly divided between the Senate and House of Representatives.

## INTERNAL CONTROL

We have examined the financial schedules of the Office of the Legislative Auditor for the two fiscal years ended June 30, 1995. We issued our opinion dated September 22, 1995 on these schedules. As part of our examination, we made a study and evaluation of the Office's control system. Our study evaluated the system as required by government auditing standards for financial compliance audits. We classified the controls in the following categories:

1. Expenditures/liabilities;
2. Property, plant, and equipment;
3. Payroll; and
4. Revenue/receivables.

Our study included the control categories listed above. We applied alternative audit tests to property, plant, and equipment as we determined it was more efficient to expand substantive testing for this area. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or system as a whole.



The management of the Office of the Legislative Auditor is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause system errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Office of the Legislative Auditor .

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities in amounts that would be material in relation to the financial statements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of the document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

#### PRIOR AUDIT RECOMMENDATIONS

The Office of Legislative Auditor was last audited for the fiscal years ending June 30, 1992 and 1993. No audit recommendations were made.

#### CURRENT AUDIT RECOMMENDATIONS

None

#### STATE COMPLIANCE

We reviewed compliance with state laws that could have a material impact on the financial schedules of the Office. In our opinion, the Office complied with the state laws and regulations tested. Nothing came to our attention that caused us to believe untested compliance issues were not in accordance with applicable laws and regulations.



INDEPENDENT AUDITORS' REPORT  
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY





# JAMES J. WOSEPKA

CERTIFIED PUBLIC ACCOUNTANT

41 CENTRAL AVE. SOUTH  
P.O. BOX 970 • BEACH, ND 58621  
(701) 872-4321

15 SOUTH MAIN  
P.O. BOX 602 • BAKER, MT 59313  
(406) 778-2816

## INDEPENDENT AUDITORS' REPORT

The Legislative Audit Committee  
Of the Montana State Legislature:

We have audited the financial schedules of the Office of the Legislative Auditor for each of the two fiscal years ended June 30, 1994 and 1995, as listed in the table of contents. These financial schedules are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the Office's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to in paragraph one present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Legislative Auditor for each of the two fiscal years ended June 30, 1994 and 1995, in conformity with the basis of accounting described in Note 1.



Baker, Montana  
September 22, 1995



OFFICE OF LEGISLATIVE AUDITOR  
 SCHEDULE OF CHANGES IN FUND BALANCES  
 FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994 AND 1995

	<u>General Funds</u>	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1993	\$ <u>0</u>	\$ <u>123,751</u>
ADDITIONS		
<u>Fiscal Year 1993-94</u>		
Nonbudgeted Revenue & Transfers In	3,987	106,517
Prior Year Expenditure Adjustments	696	784
Support From State of Montana	1,270,558	
Budgeted Revenue & Transfers In		1,380,376
REDUCTIONS		
<u>Fiscal Year 1993-94</u>		
Budgeted Expenditures & Transfers Out	<u>1,275,241</u>	<u>1,311,314</u>
FUND BALANCE: June 30, 1994	\$ <u>0</u>	\$ <u>300,114</u>
ADDITIONS		
<u>Fiscal Year 1994-95</u>		
Nonbudgeted Revenue & Transfers In	127	24,398
Prior Year Expenditure Adjustments	109	107
Support From State of Montana	1,210,082	
Budgeted Revenue & Transfers In		974,557
REDUCTIONS		
<u>Fiscal Year 1994-95</u>		
Budgeted Expenditures & Transfers Out	<u>1,210,318</u>	<u>1,172,123</u>
Prior Year Expenditure Adjustments	<u>          </u>	<u>          </u>
FUND BALANCE: June 30, 1995	\$ <u>0</u>	\$ <u>127,053</u>

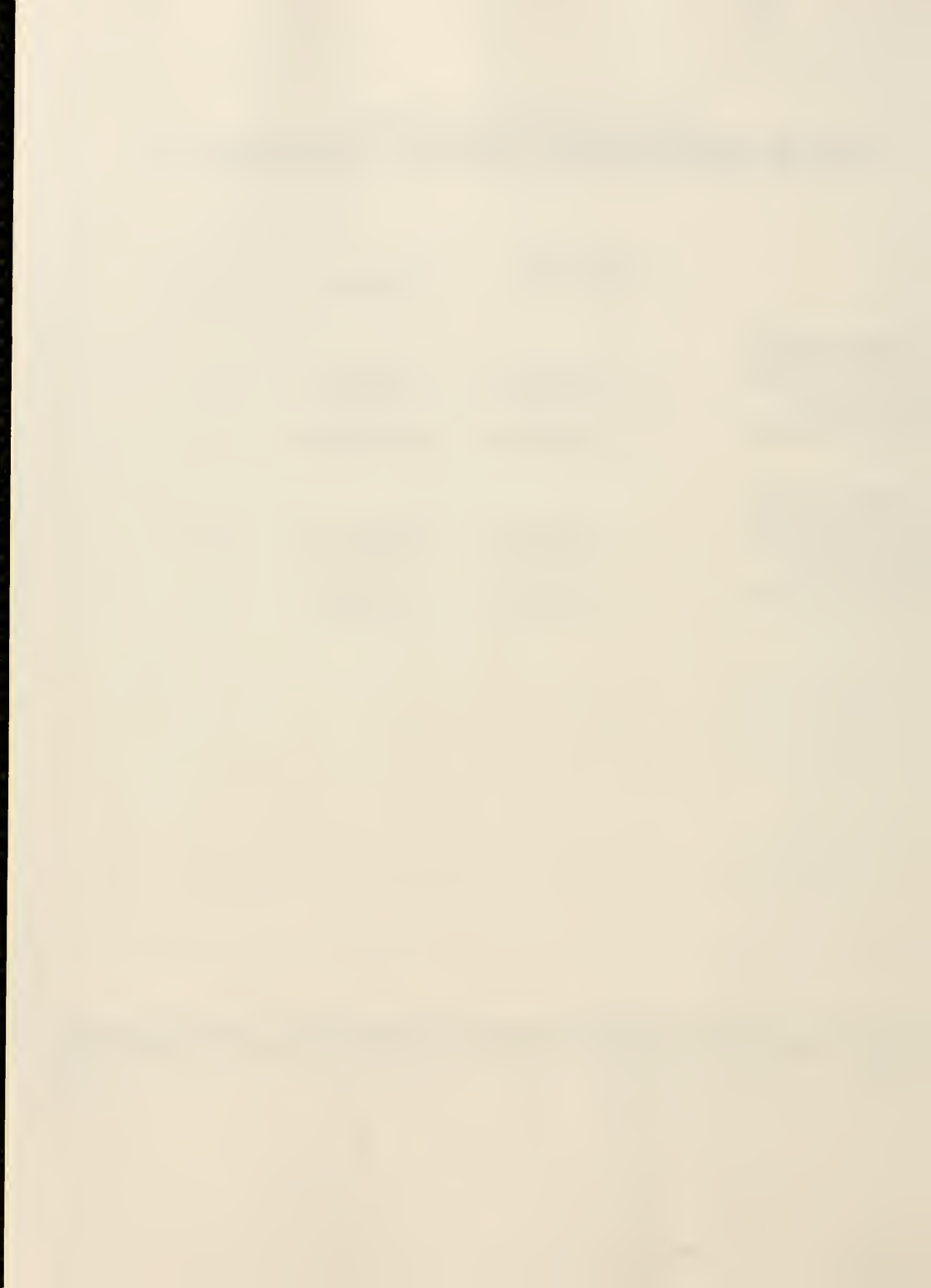
This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 7-8.



OFFICE OF LEGISLATIVE AUDITOR  
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994 AND 1995

	<u>Charges For</u> <u>Services</u>	<u>Total</u>
<u>Fiscal Year 1994-95</u>		
SPECIAL REVENUE FUND		
Estimated Revenue	\$ 1,062,830	\$ 1,062,830
Actual Revenue	<u>974,557</u>	<u>974,557</u>
Collections Over (Under) Estimate	\$( <u>88,273</u> )	\$( <u>88,273</u> )
 <u>Fiscal Year 1993-94</u>		
SPECIAL REVENUE FUND		
Estimated Revenue	\$ 1,269,438	\$ 1,269,438
Actual Revenue	<u>1,380,376</u>	<u>1,380,376</u>
Collections Over (Under) Estimate	\$ <u>110,938</u>	\$ <u>110,938</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 7-8.



OFFICE OF LEGISLATIVE AUDITOR  
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT-BUDGET AND ACTUAL  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1994 AND 1995

	<u>1994</u>	<u>1995</u>
<b>PERSONAL SERVICES</b>		
Salaries	\$ 1,883,754	\$ 1,754,963
Hourly Wages		513
Employee Benefits	<u>437,860</u>	<u>413,449</u>
Total	<u>2,321,614</u>	<u>2,168,925</u>
<b>OPERATING EXPENSES</b>		
Other Services	110,299	73,208
Supplies & Materials	10,502	14,580
Communications	19,766	21,591
Travel	56,037	43,730
Rent	29,150	30,075
Repair & Maintenance	6,423	6,918
Other Expenses	<u>21,350</u>	<u>18,787</u>
Total	<u>253,527</u>	<u>208,889</u>
<b>EQUIPMENT AND INTANGIBLE ASSETS</b>		
Equipment	10,305	4,627
Intangible Assets	<u>109</u>	<u>          </u>
Total	<u>10,414</u>	<u>4,627</u>
<b>BENEFITS &amp; CLAIMS</b>		
Insurance Payments	<u>1,000</u>	<u>          </u>
Total	<u>1,000</u>	<u>          </u>
<b>TOTAL PROGRAM EXPENDITURES</b>	<b>\$ <u>2,586,555</u></b>	<b>\$ <u>2,382,441</u></b>
<b>GENERAL FUND</b>		
Budgeted	\$ 1,294,303	\$ 1,336,571
Actual	<u>1,275,241</u>	<u>1,210,318</u>
Unspent Budget Authority	<u>\$ 19,062</u>	<u>\$ 126,253</u>
<b>SPECIAL REVENUE FUND</b>		
Budgeted	\$ 1,460,323	\$ 1,458,842
Actual	<u>1,311,314</u>	<u>1,172,123</u>
Unspent Budget Authority	<u>\$ 149,009</u>	<u>\$ 286,719</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 7-8.





OFFICE OF THE LEGISLATIVE AUDITOR

NOTES TO THE FINANCIAL SCHEDULES  
JUNE 30, 1994 AND 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial schedules were prepared from Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to State law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriation is required to spend from this fund. The Office uses this fund to account for audit fees charged to state agencies primarily for financial - compliance audits.

Basis of Accounting

The Office of the Legislative Auditor uses the modified accrual basis of accounting which is described in the Montana Operations Manual, such basis differs from from generally accepted accounting principles in the following material respects:

under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy;

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
- Obligations for employees' vested leave and sick leave are recorded as expenditures when paid.



OFFICE OF THE LEGISLATIVE AUDITOR

NOTES TO THE FINANCIAL SCHEDULES (CONT.)  
JUNE 30, 1994 AND 1995

Vacation and Sick Leave

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Office of the Legislative Auditor. Expenditures for termination pay currently are absorbed in the annual operational costs of the Office. At June 30, 1994 and 1995, the Office had liabilities for compensated absences of \$ 253,425 and \$ 262,503, respectively.

2. PENSION PLAN

Employees are covered by Montana Public Employees' Retirement System (PERS). The Office's contributions to the plan in the fiscal years 1994 and 1995 were \$ 126,094 and \$ 117,419, respectively.

3. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the Statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the General Fund beginning and ending fund balance will always be zero.



AGENCY RESPONSE



STATE OF MONTANA  
Office of the Legislative Auditor

STATE CAPITOL  
PO BOX 201705  
HELENA, MONTANA 59620-1705  
406/444-3122  
FAX 406/444-3036

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON  
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Financial-Compliance Audit  
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Performance Audit

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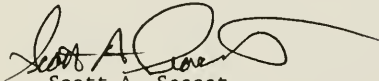
November 20, 1995

James J. Wosepka, CPA  
PO Box 602  
Baker MT 59313

Dear Mr. Wosepka:

Thank you for your report on the results of the examination of the financial schedules of the Office of the Legislative Auditor. I would like to take this opportunity to thank you and your staff for the professional manner with which the audit was completed.

Sincerely,



Scott A. Seecat  
Legislative Auditor

SAS/v/il.1tr







